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Methods for Improving the Efficiency of Collateral Operations of the Federal Treasury

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ABSTRACT

This study explores methods for enhancing the efficiency of the Federal Treasury's collateral operations aimed at managing the liquidity of the Single Treasury Account (STA). The research examines instruments such as repurchase agreements (REPO), securities lending, and clearing participation certificates (CPCs). Special attention is given to recent innovations, including exchange-traded REPO with a central counterparty, as well as mechanisms for risk minimization and yield enhancement. The author analyzes the advantages and drawbacks of using CPCs, emphasizing their flexibility and potential to expand the collateral base. Based on the findings, the paper offers recommendations for further development of liquidity management tools, including the introduction of a "conditional zero" mechanism and the reintroduction of a specialized CPC asset pool. The results may be useful for government financial authorities responsible for budget liquidity management, financial market participants engaged in REPO and CPC operations, and the broader academic community studying modern approaches to public finance management.

Keywords: Federal Treasury; collateral operations; REPO; clearing participation certificates; liquidity management; financial instruments

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INTRODUCTION

Efficient management of cash balances held in the Unified Treasury Account (hereinafter, UTA)[1] ensures the financial stability of the budget by maintaining the necessary funds in the account to meet budgetary obligations and generate additional revenue. This is made possible because by the Federal Treasury's use of a diversified set of tools for managing UTA liquidity [1, 2].

This article explores current issues related to repurchase agreements (REPOs), which involve the temporary placement of surplus UTA and federal budget funds secured by securities. Such agreements may be executed either on organized exchanges or over-the-counter. In the former case, funds are placed using exchange-based mechanisms. To gain access to this instrument, a credit institution must first conclude a Master Agreement for the purchase (sale) of securities under REPO transactions (hereinafter, the Master Agreement). Secondly, it must operate in accordance with the Rules for Conducting Operations to Manage Balances in the Federal Budget and the UTA, which govern both off-exchange REPO transactions and securities lending agreements, including the procedures for opening the necessary accounts. These rules were established by Russian Government Decree No. 777 of September 4, 2013 (hereinafter, the REPO Rules[2]). A REPO agreement consists of two parts. In the first stage, the credit institution transfers securities to the Federal Treasury's deposit account, after which the Treasury provides the institution with the agreed amount of funds. In the second stage, the transaction is reversed: the Federal Treasury returns the securities, and the credit institution repays the funds with accrued interest.

SECURITIES LENDING AGREEMENT

The Order of the Federal Treasury No. 6n of July 9, 2024, "On the Approval of the Procedure for Conducting Operations for Managing Balances on the Federal Budget's Unified Account and the Unified Treasury Account in Terms of the Purchase (Sale) of Securities under REPO Agreements, the Conclusion of Securities Lending Agreements, and the Forms of Documents Used in Carrying Out Such Operations" (hereinafter referred to as the REPO Procedure[3]) establishes a new liquidity management instrument — the securities lending agreement. Under this arrangement, a credit institution may submit an application to conclude such an agreement. A key condition is that the securities to be lent must be those previously transferred by the credit institution to the Federal Treasury as part of the first leg of the aforementioned REPO agreement.

Securities lending transactions (as with REPO transactions) are executed with the participation of a trading platform — a stock exchange. The Federal Treasury simultaneously notifies both parties: the eligible credit institutions and the exchange. In cases of non-payment of funds, penalties, or failure to return the securities, the credit institution must, prior to entering into the lending agreement, authorize the Federal Treasury to initiate non-acceptance write-offs in its favor from:

[1] Fundamentals of Budget Execution. Budget Code of the Russian Federation, Chapter 24 URL: https://www.consultant.ru/document/cons_doc_LAW_19702/81959dbd10a86cdf1251816de647b548c4c77e99/?ysclid=m7vpw14dp88988519 (accessed on 10.12.2024).

[2] Government Decree of the Russian Federation No. 777 of September 4, 2013 (as amended on May 17, 2024) "On the Procedure for Conducting Operations to Manage Balances on the Federal Budget's Unified Account and the Unified Treasury Account, in Terms of the Purchase (Sale) of Securities in Over-the-Counter REPO Transactions, the Conclusion of Securities Lending Agreements, and the Opening of Accounts for Carrying Out Such Operations." URL: https://base.garant.ru/70447320/?ysclid=m7rkwu2o6w742192688 (accessed on 10.12.2024).

[3] Order of the Federal Treasury dated July 9, 2024 No. 6n "On the approval of the Procedure for conducting operations related to the management of balances on the single account of the federal budget and the single treasury account in terms of the purchase (sale) of securities under REPO agreements, the conclusion of securities loan agreements, and the forms of documents used in the implementation of said operations". URL: https://roskazna.gov.ru/upload/iblock/fa3/Prikaz-_6n-_opublikovan_.pdf (accessed on 10.12.2024).

1. The credit institution's account in the National Settlement Depository (NSD[4]), by the settlement organization.

2. The credit institution's correspondent account, by the Bank of Russia.

3. The credit institution's securities accounts, by the central securities depository.

Non-acceptance write-off is a preventive measure designed to mitigate risks associated with a credit institution's failure to meet its obligations under the lending agreement.

When submitting an application to conclude a securities lending agreement, the credit institution specifies the total value of the securities — in other words, the loan amount. Upon receipt of the application, the Federal Treasury calculates the limit for this amount to be transferred under the agreement.

Following a series of verifications (including the application itself and compliance with the conditions outlined in the REPO Procedure), the securities lending agreement is considered concluded once the securities are credited to the credit institution's depository account in the central securities depository.

It should be noted that a REPO agreement, being a condition for entering into a loan agreement, is directly linked to it in terms of early performance of obligations — if early performance takes place under the REPO agreement, then the loan agreement is also executed early in the corresponding manner.

The loan of securities as a liquidity management instrument enables effective management of financial assets and allows for the generation of additional income, which is used by the Federal Treasury to cover temporary cash gaps in the budgets of the constituent entities of the Russian Federation, as well as to ensure timely financing of infrastructure projects within the framework of state programs.

[4] The National Settlement Depository (NSD) is a settlement organization that has entered into an agreement with the Federal Treasury. Official website: URL: https://www.nsd.ru/

REPO AGREEMENT WITH CLEARING PARTICIPATION CERTIFICATES (CPCS)

In addition to standard REPO transactions, the Federal Treasury also uses another type of this financial instrument — namely, REPO agreements concluded on organized trading platforms, or exchange-traded REPOs, executed with the participation of a trading organizer (exchange). In this case, an additional party is involved: a non-bank credit institution — the central counterparty, the National Clearing Centre (hereinafter, NCC[5]), which serves as a guarantor of the security, transparency, and legality of REPO transactions between the Federal Treasury and financial market participants (credit institutions) [3–5]. If such participants fail to fulfill their obligations under the agreement, the NCC will reimburse the Federal Treasury the full amount of funds. This significantly reduces the risk of budgetary funds not being returned.

The key feature of this instrument is that the Federal Treasury concludes REPO agreements exclusively with the central counterparty and only within the framework of exchange trading.

A notable innovation in this area is Clause 2 of the Government of the Russian Federation Decree No. 1004 of July 8, 2020 (as amended on July 26, 2024), titled "On the procedure for conducting operations related to the management of balances on the single federal budget account and the single treasury account in terms of the purchase (sale) of securities on organized trading platforms under REPO agreements"[6] (hereinafter, the Exchange-Traded REPO Procedure), which entered into force on January 1, 2025. According to this provision, REPO operations on organized trading platforms may also involve Clearing Participation Certificates

[5] National Clearing Centre (official website). URL: https://www.nationalclearingcentre.ru/ (accessed on 10.03.2025).

[6] Decree of the Government of the Russian Federation No. 1004 of July 8, 2020 (as amended on July 26, 2024) "On the procedure for conducting operations related to the management of balances on the single federal budget account and the single treasury account in terms of the purchase (sale) of securities on organized trading platforms under REPO agreements." URL: https://base.garant.ru/74368712/?ysclid=m7vu929ka1544488399 (accessed on 20.12.2024).

(hereinafter, CPCs) [6]. This means that, instead of conventional securities, CPCs are used as collateral. These are issued and held by the NCC and, from a legal perspective, are classified as derivative financial instruments — in other words, derivatives.

The issuance of Clearing Participation Certificates (CPCs) is regulated by Chapter 4.1 of the Federal Law No. 7-FZ of February 7, 2011 "On Clearing, Clearing Activities, and the Central Counterparty".[7] CPCs are issued on the basis of an asset pool contributed by participants under an agreement. In addition to securities, the pool may include precious metals, funds (including foreign currency), and goods admitted to organized trading[8] [7].

Participants retain ownership rights to the contributed assets [8]. This means that owners still have the legal right to dispose of them, which in turn leads to the nominal duplication of collateral value, as CPCs may be used in other transactions and operations. However, there is a condition arising from the principle of free disposal of assets in the pool, which imposes a logical restriction: participants must meet margin requirements for the asset pool. Specifically, they are required to make additional contributions if the actual value of the pool on a certain date differs from the value stipulated in the agreement. This process is simplified by the Moscow Exchange, which offers online asset substitution via the exchange terminal.[9]

Several other features of CPCs are also worth noting. They — depending on subjective assessment — can have both positive and negative implications. For instance, assets in the pool cannot be subject to seizure; they may only be sold through organized trading in the event of bankruptcy.

Thus, a CPC is a non-issuance security, a derivative, created to secure transactions under REPO agreements. The nominal value of one CPC is one Russian ruble. CPCs are issued and held by the clearing organization that forms the asset pool [9].

The Moscow Exchange (the trading organizer), which conducts CPC operations, supports the implementation of this financial instrument by the Federal Treasury, as the use of CPCs is beneficial for both parties. As part of this support, the exchange developed and proposed a CPC discounting system. For example, securities with a market value of 100 Russian rubles may be valued at 90 CPCs. Thus, a 10% discount is applied within the risk management framework [10].

The Moscow Exchange has established three asset pools[10]:

1. CPC GC Bonds — includes cash (Russian rubles [RUB], Chinese yuan [CNY], US dollars [USD], and euros [EUR]); all federal loan bonds, as well as any securities accepted as collateral by the National Clearing Centre.

2. CPC GC Expanded — includes cash (RUB, CNY, USD, EUR); all securities permitted in REPO transactions with the central counterparty; precious metals (silver and gold).

3. CPC GC Shares — includes cash (RUB, CNY, USD, EUR); all shares accepted as collateral by the National Clearing Centre.

The Federal Treasury uses all of the above CPC types, since the Exchange-Traded REPO Procedure does not specify which CPC categories may be used in its REPO transactions.

These asset pools contain foreign currencies — specifically the US dollar and the euro. At present, the Federal Treasury does not carry out liquidity management operations involving them. However, the Moscow Exchange offers a certain level of flexibility for REPO transactions involving CPCs, providing the ability to automatically select assets to be included in the pool based on criteria predefined by the participant.

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[7] Federal Law "On Clearing, Clearing Activities, and the Central Counterparty" No. 7-FZ of February 7, 2011 (as amended on July 22, 2024), Chapter 4. URL: https://www.consultant.ru/document/cons_doc_LAW_110267/ (accessed on 20.12.2024 г.).

[8] Ibid., Chapter 4.1, Article 24.1, Clause 2.1.

[9] Moscow Exchange (official website). URL: https://www.moex.com (accessed on 10.12.2024).

[10] REPO with Clearing Participation Certificates with the Central Counterparty. Moscow Exchange (guidance material) URL: https://www.nsd.ru/upload/iblock/843/84330933bac60404dcd3015050d4662d.pdf (accessed on 20.12.2024).

This mechanism is designed to meet the operational requirements of the Federal Treasury. These requirements are not violated by the fact that ownership of the assets in the pool remains with the contributor. Moreover, the volume of eligible collateral that the Treasury can accept in REPO transactions is expanded — this is a major advantage of CPCs.

In the case of REPO transactions conducted on organized trading platforms, risks for the Federal Treasury are minimized, since the central counterparty acts as guarantor and assumes those risks. If a credit institution fails to meet its obligations under such a transaction, the funds stipulated in the agreement will be credited to the budget in any case.

The innovations described in the field of liquidity management clearly contribute to the development of REPO transactions and improve the efficiency of using the free balances of the Single Treasury Account (STA) and the Single Federal Budget Account (SFB). Securities lending provides additional interest income and increases the interest of credit institutions in these transactions. CPCs help to popularize these instruments, make them more flexible, and attract additional collateral assets.

DIRECTIONS FOR DEVELOPMENT

The Federal Treasury has opportunities to expand its collateral operations. Based on the existing REPO and securities lending agreements, it is possible to introduce reverse REPO agreements, which would involve the Treasury receiving funds in the national currency from financial market participants (credit institutions) outside organized trading, with available securities used as collateral. This financial instrument would help minimize short-term cash gaps in the budget and allow for a swift response to changes in the market by increasing the volume of funds placed through higher targeted balances.

In developing operations with CPCs, it is preferable for the Federal Treasury to use only “CPC GC Bonds”, due to the need to maintain stability and guarantees, as these transactions are backed by federal loan bonds. However, this pool may also include other types of bonds, the use of which as collateral could introduce price risks, potentially affecting the actual value of the asset pool.

From January 29, 2018 to July 17, 2022, the National Clearing Centre maintained an asset pool titled “CPC GC OFZ”,[11] which included bonds issued on behalf of the Russian Federation and denominated in rubles, as well as cash in rubles. To minimize risks in REPO operations involving CPCs, it would be advisable for the Federal Treasury to work with the NCC to reinstate the “CPC GC OFZ” pool and use it in future REPO transactions. This would require amendments to the Exchange-Traded REPO Procedure, clarifying the specific types of CPCs that can be used in transactions with the Treasury.

One of the key advantages of CPCs is their flexibility. Since 1 CPC is equivalent to 1 Russian ruble, the instrument can be used to bring Treasury accounts to what is called a “notional zero”—that is, to maximize liquidity in those accounts. For example, if there is a remaining free balance at the end of the day, a REPO deal can be executed for that precise amount (accurate to 1 ruble), using CPCs as collateral. This is possible because CPCs are readily available, as ownership of the underlying assets in the pool does not transfer to the recipient of the derivative. To support the development of such collateral operations, it would be necessary to conduct non-organized CPC trades —at least once at the end of the operational day. This would require changes to the REPO Procedure and Rules to regulate such trading. The implementation of this innovation would make it possible to quickly bring the STA (Single Treasury Account) to notional zero and increase the returns on fund placements.

CONCLUSIONS

Liquidity management at the state level is one of the key factors in the development of the national economy, as it brings additional income

[11] Asset Pool Resolutions. NCC (official site). URL: https://www.nationalclearingcentre.ru/catalog/020417 (accessed on 10.03.2025).

to the budget. For example, in 2024, thanks to these mechanisms, the Federal Treasury earned over 1 trillion rubles.[12] The further development of financial instruments — such as securities lending, reverse REPO, CPCs, and the "notional zero" mechanism — can enhance the efficiency of liquidity management for the STA, reduce risk, and increase the Treasury's contribution to the Russian federal budget.

[12] Information on the volume of funds received from the placement of temporarily free funds of the Single Treasury Account. Federal Treasury (official site). URL: https://roskazna.gov.ru/finansovye-operacii/razmeshchenie-sredstv-edinogo-kaznacheyskogo-scheta/informatsiya-ob-obeme-sredstv-poluchennykh-ot-razmeshcheniya-vremenno-svobodnykh-sredstv-edinogo-kaz/informatsiya-ob-obeme-sredstv-poluchennykh-ot-razmeshcheniya-vremenno-svobodnykh-sredstv-edinogo-kaz/ (accessed on 20.12.2024).

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